1978

COLONIAL OIL & GAS LIMITED

Annual Report

COLONIAL OIL AND GAS LIMITED and SUBSIDIARIES

COG Inc.
Fort Nelson Gas Ltd.
Fort Nelson Transmission Co. Ltd.
General Utilities Corporation Ltd.
West Ridge Resources Ltd.
West Ridge Resources Inc.

DIRECTORS:

R. JAMES BALFOUR, Q.C., M.P.
Partner, Balfour, Moss, Milliken, Laschuk, Kyle, Vancise and Cameron, Regina, Saskatchewan, and Member of Parliament, 1972 - 1979.

JOHN L. GIBSON
Chairman, Highmont Mining Corp. Ltd., Vancouver, B.C.

ROBERT W. HOLE
President, Lockerbie & Hole Ltd., Vancouver, B.C.

HARVEY A. McDIARMID
President, Colonial Oil & Gas Limited and National Homes Ltd., Vancouver, B.C.

JOHN B. ROSS
President, Canlan Investment Corporation, Vancouver, B.C.

FRANK J. SIMINGTON
President, General Utilities Corporation Ltd., Vancouver, B.C.

NICOLAAS M. VAN DRIMMELEN
President, Netherlands Acceptance Corporation Ltd., Vancouver, B.C.

OFFICERS:

HARVEY A. McDIARMID -	*President*
ROBERT W. HOLE - -	*Vice-President*
FRED W. MAYCOCK - -	*Secretary*

REGISTERED OFFICE:

24th Floor, Oceanic Plaza Building
1066 West Hastings Street
P.O. Box 12534
Vancouver, British Columbia
V6E 3X1 Canada

ADMINISTRATION OFFICE:

1300 - 100 W. Pender Street
Vancouver, British Columbia
V6B 1R8 Canada
Telephone — (604) 685-9821

BANKERS:

THE ROYAL BANK OF CANADA
1025 W. Georgia Street
Vancouver, British Columbia
V6E 3N9 Canada

REGISTRAR AND TRANSFER AGENT:

MONTREAL TRUST COMPANY
Vancouver and Regina, Canada

AUDITORS:

DELOITTE, HASKINS & SELLS
1500 - 1055 W. Georgia Street
Vancouver, British Columbia, Canada

STOCK LISTING:

VANCOUVER STOCK EXCHANGE

Report of the President on Behalf of the Directors to the Members

FINANCIAL

The year 1978 proved to be another record year for Colonial Oil & Gas Limited. The net profit before extraordinary items was $265,985 up 738% from the prior year of $31,747. Cash flow generated from operations was $566,483, up 48% from the 1977 total of $383,289.

Oil and natural gas revenues, net of royalties, were up 10.3% over the prior year, in spite of a decline in volume. This was accounted for by some price increases at the wellhead, particularly in new gas connected in late 1978 in the Bullhook Unit of Montana. Average price received in 1978 from that Unit, before deduction of royalty, was $1.01 per MCF. By December, 1978 the average price had increased to $1.33 per MCF. Prices for January, 1979 averaged $1.42 and there is every hope that gas prices will eventually achieve their proper relationship to oil prices. With oil commanding a landed price of $15.00 per barrel or more, gas should be worth $2.50 per thousand cubic feet. Gas is still a bargain fuel.

Colonial's gas utility which serves the Fort Nelson area of Northern British Columbia enjoyed record sales in 1978, and had total revenues of $1,041,170 up 77.5% over the previous year of $586,464. Four factors contributed to this healthy increase:

(a) higher volume sold – up 21%

(b) 1977 gas cost on the average $0.52 per MCF
1978 gas cost on the average $0.94 per MCF

(c) favourable rate increase of $0.30 per MCF granted by the B.C. Energy Commission effective February 1, 1978

(d) decision by the B.C. Government to maintain rail service to Fort Nelson, thereby supporting the courageous investment in the forest industry of our only two industrial accounts.

Total operating and administrative charges increased 32% over the prior year, most of this increase occurring in the gas distribution costs which were $633,000 compared to $335,237 for 1977. Most of this increase was in cost of gas sold.

Increased cost on both long and short term debt increased $10,174, up 5.5%, whereas salaries, employee benefits, professional fees and general administrative expenses decreased $33,273, down 11.4%, reflecting the great effort made by management and staff to hold overhead to manageable levels.

OIL AND GAS PRODUCTION

During 1978 Colonial produced and sold 12,573 barrels of oil, down 758 barrels from the prior year. The average daily production was 34.4 barels. The bulk of this production was from the Lucky Hills field in South West Saskatchewan, however 1,107 barrels were produced by three Alberta wells, two of which came on stream for the first time in December. Two more wells were connected in February, 1979 and it is anticipated that there will be an overall increase in oil production in 1979.

Gas production during 1978 totalled 732,696,000 cubic feet, down 43,632 cubic feet from 1977. Of this small decline, 34,892 cubic feet was in Alberta production and was due to the cut back in contract volume by the pipe-line customers. Under the take-or-pay clause in one of our contracts, payment has been received for gas contracted but not delivered, however such amounts will not be taken into income until delivery is made. The average daily production was 2,007,000 cubic feet.

Colonial sold 565,820,000 cubic feet of gas in Fort Nelson, B.C. and vicinity during 1978, up 98,797,000 cubic feet over 1977. Sales averaged 1,550,000 cubic feet per day, but ranged from a low of 927,000 cubic feet on June 3, 1978 to a peak day of 5,362,000 cubic feet on December 21, 1978.

EXPLORATION, DEVELOPMENT DRILLING AND LAND ACQUISITION

During 1978, Colonial participated in drilling 13 wells, four in Alberta and nine in Montana. The four Alberta wells resulted in two gas wells, now shut-in awaiting gas contracts and two oil wells, both placed in production in early 1979. In addition two Alberta oil wells, one of which was drilled in 1977 and one in 1971, were completed as producers in December 1978. Of the nine wells drilled in the Bullhook Unit area of Hill County, Montana, six are commercial gas wells and three are dry holes and were abandoned.

The Company purchased 9.375% interest in the Utex Oil Company lease covering 960 acres in the Northern section of Great Salt Lake, Utah. Amoco has drilled two wells straddling this lease, one about four miles to the South East and one about four miles to the North West. The first well was reported to have minor shows of gas, and minor shows of dead oil. The second well is reported to have discovered shows of heavy, tarlike oil at a depth of about 2,400 feet. The well was drilled to a depth in excess of 7,000 feet and additional tests were to be run. A spokesman stated the oil found was so thick that it would not flow, but further extensive testing would be required to determine if the oil is commercially produceable.

A third well is presently being drilled between the second well and the Utex acreage, however no information is yet available on this well.

In December Colonial agreed to participate in a frontier wildcat to be drilled on Chevron acreage in the North West Territories of Canada. The well, Paramount et al Liard D29, was spudded in late January, and although it reached a sufficient earning depth, it had to be suspended because of an early break-up.

GAS UTILITY, FORT NELSON, B.C.

The year 1978 was one of decision in Fort Nelson. On November 19, 1977, Tackama Forest Products, our largest industrial account burned to the ground. The decision to rebuild was made almost immediately and four months and two days after the fire the first veneer plant was in operation. Shortly thereafter the second veneer plant came on stream, followed 45 days later by the sawmill. Meanwhile a Royal Commission was investigating the advisability of

abandoning the rail line to Fort Nelson on which Tackama and the other forest industry operations literally depended for their survival. The Commission's recommendation to abandon the line was over-ruled by the Provincial Cabinet, resulting in renewed confidence in the viability of the forest industry.

On July 11th and 12th the B.C. Energy Commission held a public hearing in Fort Nelson to hear our company's application for a rate increase in our service area. The Energy Commission by their decision dated September 21, 1978, confirmed the previous interim increase of $0.30 per MCF in the residential tariffs, and $0.10 per MCF in the general and industrial tariffs effective February 1, 1978.

The dramatic increase in oil and gas exploration in the North East corner of British Columbia has had a great impact on the town of Fort Nelson. The city has completed a modern water system capable of servicing several times the population presently served, as well as a new sewer installation, improved recreational facilities, and a general up-grading of all roads and services.

As a result of all the above we had an increase of 139 residential accounts and 19 general accounts in 1978. Available building lots are again scarce and two new subdivisions are planned with about 100 serviced lots expected to be completed in time for home construction this year, out of a total of approximately 300 to be developed.

The turn around that has taken place in our Fort Nelson operation is most encouraging and plans are being readied to replace much of our main transmission line with larger capacity pipe so that we can supply the increase in demand now rapidly building.

OFFSHORE – GERMAN NORTH SEA – WEST AFRICA

The permit for the exploration and production of oil and gas in an area of the German Continental Shelf of the North Sea known as Block J2 has been extended to June 30, 1980. Further work is being done in the way of interpretation of current seismic and such new seismic as is available. Colonial retains a 16% working interest in this permit.

Colonial has retained a minor interest in two concessions offshore the Cameroons in Equatorial Africa. Gulf Oil Exploration and Production Company has taken a farm-out on permit No. 37 and Mobile Oil Corporation has purchased our interest in Permit No. 38, in which we retain a minor overriding royalty interest.

1979 FIRST QUARTER RESULTS

The results for the three months ending March 31, 1979 are well ahead of the same period in 1978. Although figures are firm for January and February, results for March have been estimated. Indications are that sales are up 51% from $657,560 to $993,076, net profit is $328,542, up 81% from the 1978 figure and cash flow has increased 70%, up from $228,885 to $388,348.

1979 EXPANSION PLANS

Colonial has arranged $2,300,000 financing by the sale of shares on a private placement basis. Horace ReKunyk of Calgary, Alberta and Great Northern Financial Corporation of Toronto, Ontario have agreed to purchase 866,667 and 666,667 shares, respectively, at $1.50 per share.

Mr. Horace ReKunyk, James M. Thompson, Q.C. and Vernon Edward Daughney will become directors of Colonial and Mr. ReKynuk will in the future assume a senior executive position.

Colonial has also agreed to acquire producing oil and gas properties in East Central Alberta and Saskatchewan. The properties comprise various working interests in approximately 120 wells. The value of the properties was determined by McDaniel Consultants (1975) Ltd. at $2,650,540 and after making certain adjustments to reflect tax considerations it has been agreed that the properties would be purchased for $2,186,250 by the issuance of 1,457,500 shares of Colonial.

In consideration for assistance to Colonial in the foregoing, Colonial will issue to McDermid, Miller & McDermid Ltd., a warrant for the purchase of 100,000 shares of Colonial at $1.80 per share, exercisable to June 30, 1980. Colonial will also grant options to five directors to each purchase 20,000 shares at $1.80 per share until June 30, 1980.

The foregoing transactions are subject to the approval of securities regulatory authorities and the shareholders of Colonial.

ON BEHALF OF THE BOARD

Harvey A. McDiarmid,
President.

May 1, 1979

AUDITOR'S REPORT

To the Shareholders of
Colonial Oil & Gas Limited:

We have examined the consolidated balance sheet of Colonial Oil & Gas Limited as at December 31, 1978 and the consolidated statements of income and deficit and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE, HASKINS & SELLS
Auditors.

March 21, 1979

COLONIAL OIL & GAS LIMITED

(Under the Companies Act, British Columbia)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1978

(with prior year's figures for comparison)

ASSETS

	1978	1977
CURRENT ASSETS:		
Cash	$ 103,727	$ 100,249
Accounts receivable	390,875	273,300
Inventories of supplies — at cost	38,462	41,272
Prepaid expenses	23,376	2,451
Total current assets	556,440	417,272
PROPERTY, PLANT AND EQUIPMENT (Note 2)	4,442,425	4,137,348
OTHER ASSETS:		
Incorporation and organization costs	12,132	12,132
Deferred costs — less amounts amortized	117,387	109,134
Deposits	34,540	27,500
Goodwill — at cost	76,535	76,535
Total other assets	240,594	225,301
TOTAL	$ 5,239,459	$ 4,779,921

LIABILITIES AND SHAREHOLDERS' EQUITY

	1978	1977
CURRENT LIABILITIIES:		
Bank loan (Note)	$ 254,000	$ 150,000
Accounts payable and accrued liabilities	449,972	401,694
Income taxes	54,012	—
Security deposits	74,227	44,888
Current portion of long-term debt	144,500	144,500
Total current liabilities	976,711	741,082
LONG-TERM DEBT (Note 4)	1,397,500	1,542,000
ADVANCES ON FUTURE GAS SALES (Note 5)	198,985	294,170
DEFERRED INCOME TAXES	288,922	145,296
SHAREHOLDERS' EQUITY:		
Share capital (Notes 6 and 10):		
Authorized — 5,000,000 common shares without par value		
Issued and fully paid — 3,314,556 shares	2,732,369	2,707,369
Deficit	(355,028)	(649,996)
Net shareholders' equity	2,377,341	2,057,373
TOTAL	$ 5,239,459	$ 4,779,921

Approved by the Board:

HARVEY A. McDIARMID, Director

FRANK J. SIMINGTON, Director

The accompanying notes are an integral part of the consolidated financial statements.

COLONIAL OIL & GAS LIMITED

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1978

(with prior year's figures for comparison)

	1978	1977
SALES:		
Oil and gas	$ 1,100,255	$1,002,075
Less royalties	288,558	266,353
	811,697	735,722
Gas distribution	1,041,170	586,464
Total sales	1,852,867	1,322,186
COSTS AND EXPENSES BEFORE OTHER CHARGES:		
Operating:		
Oil and gas	138,401	116,604
Gas distribution	633,462	335,237
Interest:		
Long-term debt	169,708	166,783
Other	24,171	16,922
Salaries and employee benefits	143,373	142,296
Professional and consulting fees	29,989	28,182
General and administrative	72,898	111,146
Total costs and eypenses before other charges	1,212,002	917,170
INCOME FROM OPERATIONS BEFORE OTHER CHARGES	640,865	405,016
OTHER CHARGES (CREDITS):		
Depletion	105,687	104,944
Depreciation	67,237	63,788
Gain on disposal of property and equipment	—	(26,939)
Amortization of deferred costs	21,910	18,749
Cost of abandoned properties	—	238,488
Total other charges	194,834	399,030
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	446,031	5,986
PROVISION FOR INCOME TAXES (Note 7):		
Current	39,945	17,033
Deferred	140,101	20,700
Total provision for income taxes	180,046	37,733
INCREASE (LOSS) BEFORE EXTRAORDINARY ITEM	265,985	(31,747)
EXTRAORDINARY ITEM:		
Tax reduction resulting from application of prior years' tax losses (Note 7)	28,983	49,338
NET INCOME FOR THE YEAR	294,968	17,591
DEFICIT AT BEGINNING OF THE YEAR	649,996	667,587
DEFICIT AT END OF THE YEAR	$ 355,028	$ 649,996
INCOME PER SHARE (Note 8)		

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1978

(with prior year's figures for comparison)

	1978	1977
WORKING CAPITAL PROVIDED:		
Generated from operations	$ 566,483	$ 383,289
Extraordinary item — reduction in income taxes	28,983	49,338
Proceeds from disposal of properties and equipment	2,408	29,969
Contributions — natural gas consumers and others	5,511	13,727
Alberta Royalty Tax Credit	43,050	42,067
Issue of share capital for cash	25,000	220,400
Long-term debt	—	1,400,000
Total	671,435	2,138,790
WORKING CAPITAL APPLIED:		
Additions to petroleum and natural gas properties	250,859	541,922
Additions to plant and equipment	240,149	95,685
Paid or payable on long-term debt	144,500	170,750
Repayment of advances on future gas sales	95,185	100,494
Other	37,203	74,084
Repayment of bank loan	—	1,185,000
Total	767,896	2,167,935
INCREASE IN WORKING CAPITAL DEFICIENCY FOR THE YEAR	96,461	29,145
WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE YEAR	323,810	294,665
WORKING CAPITAL DEFICIENCY AT END OF THE YEAR	$ 420,271	$ 323,810

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES:

Consolidation

The consolidated financial statements include the accounts of the company and the following subsidiaries, all of which are wholly-owned:

COG, Inc.

General Utilities Corporation Limited and its wholly-owned subsidiaries, Fort Nelson Gas Ltd., and Fort Nelson Transmission Co. Ltd.

West Ridge Resources Ltd., and its wholly-owned subsidiary, West Ridge Resources Inc.

The excess of the purchase price of the shares of certain acquired subsidiaries over their net book value has been allocated to properties, plant and goodwill. The goodwill is not being amortized.

Foreign currency translation

The accounts of two U.S. subsidiaries have been translated to Canadian dollars as follows:

Current assets and current liabilities — at the rate of exchange prevailing at the year-end.

Non-current assets — at the historical rate of exchange.

Sales and expenses — at the average rate of exchange for the year.

Petroleum and natural gas properties and depletion

All costs relative to the acquisition, exploration and development of oil and gas reserves are capitalized until such time as commercial production commences or the property is abandoned. Costs applicable to abandoned properties are charged to operations in the year of abandonment. Depletion of producing properties is provided for on the unit-of-production method based on the estimated recoverable reserves of oil and gas.

Depreciation

Gas and oil production equipment are being depreciated on the straight-line and declining-balance basis at rates from 10% to 30%.

Gas transmission and distribution facilities and other equipment are being depreciated on a straight-line basis at rates from 2% to 20% as prescribed by the British Columbia Energy Commission.

Amortization and deferred costs

Financing costs are being amortized over the term of the related long-term debt, and rate application hearing costs are being amortized over two years, both on a straight-line basis.

Deferred income taxes

Deferred income taxes result primarily from deducting for tax purposes drilling, exploration, and lease acquisition costs in excess of the related amounts provided in the accounts.

2. PROPERTY, PLANT AND EQUIPMENT:

	1978	1977
Petroleum and natural gas properties — at cost	$3,515,069	$3,269,295
Less accumulated depletion	462,719	357,029
	3,052,350	2,912,266
Gas and oil production equipment	362,719	310,539
Gas transmission and distribution facilities	1,454,966	1,278,765
Other	124,238	128,773
	1,941,923	1,718,077
Less contributions from natural gas consumers, in aid of construction	129,650	124,139
	1,812,273	1,593,938
Less accumulated depreciation	422,198	368,856
	1,390,075	1,225,082
	$4,442,425	$4,137,348

3. BANK LOAN:

The demand bank loan is secured by an assignment of the shares of COG, Inc. and by a mortgage on that subsidiary's gas properties.

4. LONG-TERM DEBT:

	1978	1977
11% debenture due 1989, repayable and secured as discussed below	$1,225,000	$1,325,000
7% Series A first mortgage bonds due 1984, payable in annual instalments of $13,000 and secured by a charge on gas distribution facilities	78,000	91,000
9⅞% Series B first mortgage bonds due 1986, payable in annual instalments of $25,000 and secured by a charge on gas distribution facilities	200,000	225,000
7% Series A first mortgage bonds due 1984, payable in annual instalments of $6,500 and secured by a charge on gas transmission line	39,000	45,500
	1,542,000	1,686,500
Less due within one year	144,500	144,500
Total long-term debt	$1,397,500	$1,542,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1978
(CONTINUED)

The 11% debenture consists of a debenture and mortgage given to The Great West Life Assurance Company on a joint and several basis by Colonial Oil & Gas Limited and two of its wholly-owned subsidiaries, West Ridge Resources Ltd. and General Utilities Corporation Limited. The debt is secured by a first charge on the companies' interest in two specific petroleum and natural gas properties, by production equipment on the properties, by the assignment of production purchase agreements and net proceeds from sale of minerals from the pledged properties.

The debenture principal is repayable $25,000 quarterly to March, 1981 and $31,250 quarterly from June, 1981 to March, 1989.

The debenture agreement provides for the acceleration of principal repayments on the basis of increases in production revenues from the pledged properties.

Principal repayments on all long-term debt for the next five years are as follows:

1979 - - - - - -	$144,500
1980 - - - - - -	144,500
1981 - - - - - -	163,250
1982 - - - - - -	169,500
1983 - - - - - -	169,500

5. **ADVANCES ON FUTURE GAS SALES:**

These advances have been made under the terms of gas purchase agreements with two subsidiary companies. The advances are interest-free and are repayable at the rate of 33⅓% of the sales value of gas delivered.

Amounts so repaid during the year totalled $95,185 (1977 - $100,494).

6. **SHARE CAPITAL:**

The company has granted options to certain directors, who are also officers, for 150,000 shares at $0.50 per share; the options were exercised subsequent to December 31, 1978.

During the year, options in respect of 50,000 shares were exercised for a cash consideration of $25,000.

7. **INCOME TAXES:**

The provision for income taxes differs from the amount obtained by applying the Canadian corporation income tax rate to income before income taxes, primarily because of the effect of the companies' claim for the Alberta Royalty Tax Credit.

The companies have tax losses which aggregate approximately $232,000 and expire as follows:

1979 - - - - - -	$ 17,000
1980 - - - - - -	17,000
1983 - - - - - -	10,000
1984 - - - - - -	188,000

Any reductions in taxes payable will be recorded when the losses are utilized.

8. **INCOME (LOSS) PER SHARE:**

Income (loss) per share, based on the weighted average number of shares outstanding during the year, was:

	1978	1977
Income (loss) before extraordinary item - - - - - - - - -	8.06¢	(0.98)¢
Extraordinary item - - - -	0.87	1.52
Net income for the year - - -	8.93¢	0.54¢

9. **REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:**

The agrgegate direct remuneration paid or payable to directors and senior officers, as defined in the Companies Act, British Columbia, totalled $121,308 for the year, of which $115,308 was paid to full-time employees.

10. **SUBSEQUENT EVENTS:**

In February 1979, the company entered a letter of intent, under which it would:

Issue 1,533,334 common shares by way of a private placement at $1.50 per share for a cash consideration of $2,300,000;

Purchase certain Alberta and Saskatchewan oil and gas properties comprising interests in approximately 120 producing wells.

The consideration for the purchase will be 1,457,500 common shares valued at $1.50 per share.

Grant options in respect of 100,000 common shares to directors, exercisable until June 30, 1980 at $1.80 per share;

Grant a warrant, expiring June 30, 1980, to McDermid, Miller & McDermid Ltd. for the purchase of 100,000 common shares at $1.80 per share;

The above matters are subject to approval by the shareholders and by the appropriate securities and regulatory authorities. As well, the shareholders must approve the increase in the authorized capital of the company to 10,000,000 shares.

COLONIAL OIL & GAS LIMITED
AND SUBSIDIARIES

INTERIM REPORT
FIRST HALF
1978

TO THE SHAREHOLDERS

1978 FIRST HALF RESULTS — UNAUDITED

Consolidated net earnings for the first half of 1978 totalled $220,712 or $0.068 per common share, 78.5% higher than the $123,623 or $0.038 per common share earned during the same period last year.

Funds generated from operations rose to $308,481 or $0.094 per common share, an increase of 46% from the $211,040 or $0.065 per common share earned in the first half of 1977.

The increase can be attributed to the increase in gas and oil prices and a substantial increase in volume produced.

SECOND QUARTER RESULTS

Second quarter results were below those of the first quarter in both the production companies and the gas utility. Fort Nelson sales showed their usual summer decline, although June was the first month with an actual operating loss. In addition the Winnifred Gas Unit was shut-in for the months of June and July, which will affect the third quarter as well. Both the Donalda Unit and the Bullhook Unit maintained close to contract volumes.

EXPLORATION AND DEVELOPMENT

Colonial participated in 4 wells up to the end of June, all of which are successful gas wells. Three of these are in the Bullhook Unit and will be connected and on stream this year. The fourth is located West of the Winnifred Alberta Unit, on land owned by General Utilities Ltd., a Colonial subsidiary. No contract exists at the present time for production from this well.

Prior to the date of this report, but subsequent to the end of June a further 3 wells were drilled in the Bullhook Unit, two of which are indicated gas wells.

Four more well sites have been selected for drilling in the third quarter, three in the Bullhook Unit and the other is a follow-up to the successful oil well drilled in North Taber, Alberta, in December of 1977.

GREAT SALT LAKE, UTAH

In 1972 the U.S. Supreme Court in a landmark decision confirmed that the State of Utah in fact owned the mineral rights under the lake bottom. The lake is the centre of one of the biggest tertiary age basins in the Western U.S.A.

Amoco were first to the courthouse and as a result leased practically the entire area, one block alone totalling over 600,000 acres. Amoco are planning to drill up to six test wells, two north of the Causeway and four in the south part of the lake. Amoco has assembled a drilling barge and the necessary support craft, as well as a base harbour. The cost of the preparations prior to drilling are said to be in the region of five million dollars, and each well will cost in the order of $1.5 million.

At a recent state lease sale Utex Oil Co. of Salt Lake City, were the successful bidders on one and a half sections, (960 acres) situated approximately midway between the two proposed North side wells of AMOCO.

West Ridge Resources Inc., a Colonial subsidiary, has purchased a 9.375% interest in the UTEX lease, which is a ten year lease, bearing standard Royalties of 12½%. The Amoco well, now drilling below 5,000 feet with a target depth of approximately 10,000 feet, although having "tight hole" status, will be completed in 1978. Should hydrocarbons be found, this will be a very exciting play for the Colonial group.

FORT NELSON GAS LTD.

On July 11th and 12th the B.C. Energy Commission held a public hearing at Fort Nelson, B.C. to determine the just, reasonable and sufficient rates for natural gas in the service area, and also considered an application permitting the company to extend its service area from Mile 294 south to Mile 285 on the Alaska Highway, the extended area to lie one mile on either side of the highway. No decision is expected before the end of August.

Respectfully yours,

August 15th, 1978

Harvey A. McDiarmid,
President

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

(Unaudited)

	6 Months Ended June 30th 1978	1977
Revenues		
Oil and gas production	**$ 540,968**	$ 527,408
Utility Income	**485,893**	372,401
	1,026,861	899,809
Costs and expenses		
Utility gas purchases	**233,440**	185,908
Oil and gas operating expense	**203,216**	284,579
Depreciation, depletion and amortization	**87,769**	87,417
Interest	**109,072**	97,454
Administration	**172,652**	120,828
	806,149	776,186
Income before corporate taxes	**220,712**	123,623
Corporate income taxes	**nil**	nil
Consolidated net income	**$ 220,712**	$ 123,623
Cash flow	**$ 308,481**	$ 211,040
Earnings per common share	**$0.068**	$0.038
Cash flow per share	**$0.094**	$0.065